

Income under the head Salaries

1. **Sec.17(1)**. Salary is defined to include:

- a) Wages
- b) Annuity or Pension
- c) Gratuity
- d) Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages
- e) Advance of Salary
- f) Leave Encashment
- g) Annual accretion to the balance of Recognized Provident Fund
- h) Transferred balance in Recognized Provident Fund
- i) Contribution by Central Government or any other employer to Employees Pension Account as referred in Sec. 80CCD

2. Points to consider:

- a) Salary income is chargeable to tax on “due basis” or “receipt basis” whichever is earlier.
- b) Existence of relationship of employer and employee is must between the payer and payee to tax the income under this head.

Basis of charge. Sec.15.

Income from salary taxable during the year shall consists of following:

- i. Salary due from employer (orformer employer) to taxpayer during the previous year, whether paid or not;
- ii. Salary paid by employer (orformer employer) to taxpayer during the previous year before it became due;
- iii. Arrear of salary paid by the employer (including former employer) to taxpayer during the previous year, if not charged to tax in any earlier year;

Exceptions – Remuneration, bonus or commission received by a partner from the firm is not taxable under the head Salaries. It is taxable under the head business or profession.

3. Place of accrual of salary:

- a) Salary accrues where the services are rendered even if it is paid outside India;
- b) Salary paid by the Foreign Government to his employee serving in India is taxable under the head Salaries;
- c) Leave salary paid abroad in respect of leave earned in India shall be deemed to accrue or arise in India.

Exceptions – If a Citizen of India render services outside India, and receives salary from Government of India, it would be taxable as salary deemed to have accrued in India.

Allowances those are fully taxable

1. City Compensatory Allowance
2. Dearness allowance
3. Entertainment allowance
4. Fixed Medical allowance
5. Lunch / Tiffin allowance
6. Over-time allowance
7. Servant allowance

Allowances like Conveyance allowance, Helper allowance, etc are fully exempt if they are fully utilised for official purpose.

House Rent Allowance

Least of the following is exempt:

1. Actual HRA received
2. 50% of salary* (in metro cities) or 40% of salary* (in other cities)
3. Rent paid in excess of 10% of salary*

*Here salary means – basic pay, DA, if the terms of employment so provide and includes commission, if it is fixed percentage of turnover / sales.

Other Important Allowances

1. Children Education allowance: Upto Rs.100 p.m. for 2 children is exempt
2. Hostel Expenditure allowance: Upto Rs.300 p.m. for 2 children is exempt
3. Transport allowance: Upto Rs.800 p.m. (Upto Rs.1600 p.m. for PH)
4. Running allowance for employees working in transport sector:
70% of the amount received or Rs.10,000 p.m. whichever is less is exempt

Entertainment Allowance Sec.16(ii)

For Government employees, least of the following is exempt:

1. Actual amount received
2. 20% of basic salary
3. Rs.5,000.

Deduction towards professional tax Sec.16(iii) is an allowable deduction.

Perquisite Sec.17(2)

It may be defined as benefit attached in addition to salary or wages.

1. Value of perquisite in respect of Rent free Furnished / Unfurnished accommodation Or accommodation provided at concessional rent.

(i) Government employees:

License fee determined as reduced by rent recovered from the employee.

(ii) Others:

(a) If owned by employer:

15% of salary (cities with more than 25 lakhs population)

10% of salary (cities with population 10 to 25 lakhs)

7.5% of salary (other places)

as reduced by rent recovered from the employee.

(b) If taken on rent by employer

Rent paid by employer or 15% of salary whichever is less

as reduced by rent recovered from the employee.

(c) Hotel accommodation

Actual charges or 24% of salary whichever is less

as reduced by amount recovered from the employee.

(In case, hotel accommodation is provided to employees on transfer, not taxable for a period of 15 days).

Here **salary** means
 Basic salary,
 DA, if the terms of employment so provide
 Bonus
 Commission,
 Fees,
 All other taxable allowances,
 Any other monetary

Value of furniture, if provided, to be added to the above.

Value is -
 10 % of the original cost (if owned by employer) or actual hire charges (if taken on rent), as reduced by amount recovered from the employee.

However, there is no perquisite if accommodation is provided to employees working at:

- (a) Mining site
- (b) Onshore oil exploration site
- (c) Offshore site
- (d) Project execution site
- (e) Dam site
- (f) Power generation site

if the accommodation is temporary nature, the plinth area is less than 800 sq.ft, and such accommodation is in a remote area (beyond 8 km from local municipal limits).

Moreover for employees on transfer upto a period of 90 days, if accommodation is provided at new place and the accommodation at old place is also retained, the one which has lower value will be taxable.

Accommodation provided to **Supreme / High Court judges** is **not** taxable.

2. Perquisite provided to specified employees.

‘Specified employees’, means an employee who

- (a) Is a director of the company
- (b) Has substantial interest in the company by having not less than 20% shares;
- (c) Is drawing salary of more than Rs.50,000

(i) Valuation of perquisite in respect of free domestic servants:

The actual cost to the employer for the services of sweet, gardener, watchman, personal attendant, etc., (i.e. salary paid to such servants) will be the value of perquisite.

(ii) Valuation of perquisite in respect of gas, electricity, water supply, etc.,

If taken from outside agencies, actual charges paid by the employer as reduced by the amount recovered from the employee will be the value of perquisite.

If supplied by the employer out of own sources, manufacturing cost incurred as reduced by the amount recovered from the employee will be the value of perquisite.

(iii) Valuation of perquisite in respect of education.

If educational facility is provided to employee's children (no restriction on no. of children), where cost of education does not exceed Rs.1,000 p.m. per child, the value of perquisite is **NIL**.

If the value exceeds Rs.1,000 p.m. the **excess** over Rs.1,000 as reduced by amount recovered from the employee will be the value of perquisite.

For members other than children (i.e. grand children, etc.), it is taxable.

However, amount spent on training of employees is **not** taxable.

3. Obligation of employee met by employer.

E.g.1.Reimbursement of expenditure incurred for education of the family members of the employee (even if it is directly paid to the school) is taxable.

E.g.2. Reimbursement of expenditure incurred on telephone (connection in the name of employee) is taxable.

4. Sum paid / payable by employer towards Insurance on the life of employee

Amount paid / payable by an employer, directly or indirectly, to effect an assurance on the life the assessee or to effect a contract for an annuity (other than RPF or approved superannuation fund or deposited linked insurance fund) is taxable.

5. Any specified security or sweat equity shares**6. Contribution to Superannuation fund more than Rs. 1 lakhs****7. Any other fringe benefits.****(1) Valuation of perquisite in respect of interest free / concessional rateloan**

The difference in interest rates as charged by the SBI and the employer on the maximum outstanding monthly balance as reduced by amount recovered from the employee will be the value of perquisite.

(2) Valuation of perquisite in respect of use of movable assets

The value is 10 % of the original cost (if owned by employer) or actual hire charges (if taken on rent), as reduced by amount recovered from the employee.

However, use of laptops / computers is not considered as perquisite.

(3) Valuation of perquisite in respect of transfer of movable assets

The value of perquisite, as on the date of transfer, is given below:

S.No.	Items	Percent of depreciation	Method of depreciation
1.	Electronic items / computers	50	Reducing balance or W.D.V
2.	Motor car	20	W.D.V
3.	Any other	10	Straight line

(4) Valuation of perquisite in respect of transfer of medical facilities

- (i) Value of local medical treatment to employee / family is **not** taxable, if -
- Hospital maintained by employer
 - Government hospital / hospital maintained by local authority
 - Notified hospital for prescribed diseases
- (ii) Group Medical Insurance is **not** taxable.
- (iii) Reimbursement upto Rs.15,000 is **exempt**.
- (iv) Premium on Accident Insurance Policy is **not** taxable.

If the gross total income of the employee does not exceed Rs. 2 lakhs, expenditure on medical treatment and stay abroad met by the employer is **not** taxable subject to the amount permitted by the RBI.

(5) Perquisite in respect of Value of Motor car:

Valuation is based on ownership, on who meets the expenditure, etc.,

Owner of Car	Expenditure met by	Purpose	Value of perquisite
Employer	Employer	Fully	Not a perquisite
Employer	Employer	Fully personal purpose	Actual expenditure + Driver's salary + 10% of cost of car (-) amount recovered
Employer	Employer	Partly official and partly personal	<u>Upto 1600c.c.</u> Rs.1,800 p.m. + Rs.900 p.m. (for drv) <u>More than 1600c.c.</u> Rs.2,400 p.m. + Rs.900 p.m. (for drv)
Employer	Employee	Partly official and partly personal	<u>Upto 1600c.c.</u> Rs.600 p.m. + Rs.900 p.m. (for drv) <u>More than 1600c.c.</u> Rs.900 p.m. + Rs.900 p.m. (for drv)
Employee	Employer	Fully	Not a perquisite
Employee	Employer	Partly official and partly personal	<u>Upto 1600c.c.</u> Actual exoenditure (-) Rs.1,800 p.m. & Rs.900 p.m. (for drv) <u>More than 1600c.c.</u> Actual exoenditure (-) Rs.2,400 p.m. & Rs.900 p.m. (for drv)

If the car is taken on hire, the value of perquisite is Rs.1,800 p.m. (upto 1600 cc) or Rs.2,400 p.m (for more than 1600c.c.) and Rs.900 p.m. (for driver).

If more than one vehicle is provided, actual expenditure will be the value of perquisite.

For vehicles other than car, if it is for partly official and partly personal, actual expenditure by employer (-) Rs.900 p.m. will be the value of perquisite.

Problems.

1. The following details relate to MR. X, a resident of Delhi, for the AY 2015-16-Particulars:
 - (a) Salary including 100 % of basic pay Dearness Allowance- Rs.3,60,000-DA included for retirement benefits.
 - (b) Bonus-Rs.57,600
 - (c) Contribution to a Recognised Provident Fund-Rs.36,000
 - (d) Life Insurance Premium paid by employer:Rs.57,000
 - (e) Rent Paid by the Employer for flat provided to MR.X-Rs.90,000
 - (f) Cost of Furniture provided by the employer at the aforesaid flat-Rs.80,000
 - (g) Rent recovered from Mr. X by employer-Rs.36,000
 - (h) Bills paid by the employer for gas, electricity and water provided free of cost at the above flat-Rs.18,000
 - (i) Mr. X was provided with Company's car (self-driven) also for personal use, not possible to determine expenditure on personal use and all expenses were borne by the employer.
Compute the taxable salary income.

2. Y, an employee of ABC Ltd., receives the following emoluments during the previous year ending March 31, 2014: salary: Rs.8,67,800;bonus:Rs.2,200;salary in lieu of leave: Rs.2,000; and entertainment allowance Rs.3,000. Besides the aforesaid emoluments, his employer provided free gas and water for his domestic use (cost Rs.4,000) , a domestic servant (salary paid by employer: Rs.18,000), concessional education facility for his two sons in a school maintained by it (cost of education:Rs.16,800, amount paid by Y: Rs.2,000), free meals in office (Rs.117 per meal for 250 days) and free holiday home facility at Simla (cost Rs.8,000). Salary of a cook (Rs.9,000) engaged by Y is paid by his employer during the year. On March 31, 2014, the employer-company sells an air-conditioner for Rs.1,000(cost of air conditioner to the company: Rs.45,000, date of purchase: June 30,2009). Y contributes Rs.92,000 towards recognised provident fund; his employer contributes Rs.9000. Further, during the previous year Y has purchased 10,000 shares of a notified infrastructure company for the purpose of section 80C. He deposits Rs. 11,000 in approved annuity plan of LIC for the purpose of section 80CCC. Determine the taxable income and tax for the assessment year 2014-15. Income from other sources is Rs.56,000.

3. Z, an employee of PQ Co. Ltd. (and covered by the Payment of Gratuity Act, 1972) receives Rs.9,25,000 as gratuity. He retires on December 26, 2013 after rendering service of 28 years and 7 months. At the time of retirement his monthly salary was Rs.18,000. Is the entire amount of gratuity exempt from tax?

4. A, a resident of Bengaluru, receives Rs.20,00,000 as basic salary. In addition he gets Rs.6,00,000 as dearness allowance (forming part of basic salary), 3.5 per cent commission on sales made by him(sale made by A during the previous year 2013-14 id Rs.80,00,000) and Rs.2,40,000 as house rent allowance. He, however, pays Rs. 2,80,000 as house rent. Determine the quantum of house rent allowance exempt from tax for the assessment year 2014-15.